Irish Life

KEYPERSON – LOSS OF PROFITS / REPLACEMENT COSTS

How is the arrangement taxed?

The tax treatment of the plan benefits will depend on the purpose for which the plan is taken out, whether to cover a “Capital” or “Revenue” type loss. Where the cover is required for two different purposes i.e. loan cover and loss of profits cover, we would recommend two separate plans should be taken out.

Reason for Cover	Benefits	Premium
Loan Cover	No – Not Taxable	Not Tax deductible
Loss of Profits / Replacement Costs	Yes – Taxable	Tax deductible if 4 conditions are met

Taxation of Plan Benefits – Loss of profits (Revenue item)

Corporation Tax

- If the plan is to protect “loss of profit” (if the profits were earned they would be subject to Corporation Tax) or other “revenue items” such as replacement costs then the proceeds are likely to be treated as a “revenue receipt” or a trading receipt and **SUBJECT** to Corporation Tax.

Capital Gains Tax (CGT)

- The proceeds of a company owned plan, paid out on death or disablement, are **EXEMPT** from Capital Gains Tax.

Taxation of Premium – Loss of profits (Revenue item)

Tax Deductible for Corporation Tax

- **Yes** - if **ALL** of the following conditions are met;
  - the sole relationship is that of employer and employee,
  - the employee has no substantial proprietary interest in the business,
  - the insurance is intended to meet loss of profit resulting from the loss of the services of the employee as distinct from loss of goodwill or other capital loss,
  - and
  - the plan is a short term insurance, providing only for a sum to be paid in the event of death.

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